

WHY SHOULD WE ATTEMPT TO MANAGE
GROWTH AND DEVELOPMENT?

R e m a r k s

by

Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis

at the

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The syllabus for session 1 lists five questions. I will address my remarks to the fourth of these, namely, "Why not continue as we have in the past, letting private enterprise and the forces of supply and demand determine the direction of growth?"

My remarks will be running "counter-goodform" in at least two respects: One, instead of concentrating on our own metropolitan area or on the dynamics of urban growth--areas in which I must defer to the expertise of others--I wish to apply the question at a more general level. Two, I will assume the role of a proponent of market forces.

With that, let me turn back to the question and as a first cut give half an answer on the grounds that we have before us only half a question.

The answer is that "We can't." We can't continue relying on an unfettered free-enterprise system to determine future patterns of growth because such a system does not now, and has never, existed. Governments have historically taken an active role in economic development. Moreover, we have already been continuously changing our institutional setting to plug up some of the "leaks"--real or imagined--that have prevented the unfettered market from attaining the best results.

So, as a second approach, recasting the question somewhat, I want to answer: "We can." We can continue as we have in the past. Moreover, we ought to continue as we have in the past. Expanding this answer into an affirmative proposition I want to argue that we ought to continue relying primarily on a private economic system, supplementing it through government action in those cases where the potential gains from government intervention can be firmly established.

This proposition, so stated, is the general guiding principle I advocate. It should apply to national growth and development issues as well as regional, state and local ones.

Underlying it are two key normative premises: One; the approach takes maximum advantage of the inherent efficiencies of a decentralized decision-making system. It derives its power by harnessing, rather than blunting, the self-interest and private motivations of individuals.

Two: the approach suggests that the burden of proof falls on the planner, or proponent of managed growth to

- . ask why the market hasn't worked
- . examine how proposed intervention will work
- . make a comprehensive assessment of the benefits and costs of intervention.

At the most general level, our task is to determine the proper balance between public and private decision-making. In seeking this balance, we might first note that, conceptually, we have two alternative systems available to determine how resources are to be used.

One is the price system. The second is the political system. Both systems are used to allocate scarce resources to produce needed goods and services. Both systems influence the investments which will determine future patterns of economic growth.

And at least conceptually, both systems are ultimately responsive to the wishes and desires of individual citizens. In the price system consumers influence the allocation of resources through the dollars they spend on different types of goods and services. In the political system, individuals influence policy choices and resource allocations through the votes they cast for their elected representatives.

The important questions then become: Which system is more effective in determining the--in some sense--proper allocation of resources? Or, more directly to the topic of economic growth, since the capital investments made today will determine the course of economic growth in coming decades, what should be the proper role of the public sector in determining the types of investments which are made?

To understand the current and the future role of government, we might first look to the past. In our history we have moved from a situation which closely approximated the laissez-faire economy of Adam Smith to a system in which government is actively involved in the economy at all levels in the federal system. One might ask: Why have governments felt it necessary to intervene in the private economy at all?

A simple answer is that such intervention is due to dissatisfaction with the market outcome: the bundle of goods and services being produced by the free-market system is in some way different from the bundle of goods and services which consumers want. In a sense, government action arises out of market failures. As the old saw goes, the government does for the people those things which they cannot adequately provide for themselves.

But our simple answer is not altogether satisfactory. For we immediately face other, more specific questions: How severe must a market breakdown be before government action is justified? Can we in some objective sense define the legitimate role of government in a free-enterprise system? What specific types of goods and services are best produced by governments?

It seems natural to us that some goods--economists call them public goods--can be more efficiently provided through collective action than through individual action. In such cases the collective benefits

might be relatively great but the benefits of any one individual are so small that the public good would not be provided at all without collective action. Defense expenditures are perhaps the nearest thing we have to a pure public good.

But such pure examples are relatively rare. In identifying public goods there is a vast grey area. Some goods are provided both by governments and by the private sector (housing, medical care). Other goods that are provided by governments might conceivably be provided by the private sector (education)--and vice versa.

Local governments have historically provided for fire and police protection, sewer and water systems, and health and educational facilities. These items may have some of the characteristics of public goods, but need not necessarily be provided by the public sector. For instance, inadequate police services in some modern cities have led citizens to purchase their own guns--in effect a substitution of private police services for public services.

The pure public good is really an extreme example of a group of market imperfections which we call externalities. Externalities are by now a familiar concept. External pluses occur when one's actions result in benefits for which one cannot expect full compensation (e.g., education). Conversely, external minuses occur when one's actions result in costs for which one is not liable. Thus, in the former case, too little of a good or service may be produced, simply because the individual cannot capture compensation for the social benefits of his actions. In the latter case, there is a tendency to overproduce (e.g., autos) insofar as individuals are not bearing the true costs of their actions. Today, economists--and planners--are increasingly aware of ways in which

externalities pervade the economy, and increasingly, the existence of externalities provides a rationale for more government action.

Certainly I need not remind metro planners of the complexities of modern industrialized urban centers. Indeed much metro planning is devoted to "internalizing" the diseconomies which are external to any one municipality.

Moreover, externalities play a prominent role in the growth and/or decline of cities. The mere fact that cities consist of dense concentrations of people mean that the actions taken by any one individual or firm will create unintended costs and benefits for others.

Businessmen are aware of some externalities or spillover effects. Modernizing one store will very likely improve the sales of surrounding stores. Conversely, the physical deterioration of some establishments in a core city no doubt reduces the attractiveness of an entire business locality. And the failure of one homeowner to improve his property may hasten the decline of a neighborhood and the subsequent flight to more distant suburbs.

There are still other areas in which the market mechanism may break down. Some have argued that the market, left to itself, may not adequately allocate resources between present and future generations.

Clearly, tomorrow's citizens--the persons not yet born--have a stake in the way that resources are allocated today. Equally clearly, tomorrow's citizens have as yet no dollar votes to cast in the marketplace. The result is that the market economy may take a short-sighted view of the needs of its citizens. Current consumption may be biased upward at the expense of future generations. A society's depletable resources may be used too quickly. Or its land base may be used in ways that unduly constrain the possibilities open to future generations. Our increased

reliance on land-use planning is a direct response to the perceived needs of future citizens.

Another market imperfection--the final one on our list--is that monopoly elements may hamper the effectiveness of the market mechanism. In such instances, government action has typically come at the national level, rather than at the state or local level.

A final reason for government intervention--though not a response to a market imperfection per se--is to realign the distribution of income. Such intervention has been both direct, through the use of such tools as the income tax and indirect, through the use of specific subsidies such as low-income housing and food stamps.

Market imperfections are fairly common in our private economy. Some might go so far as to suppose that the existence of such market imperfections is a sufficient condition for heavier reliance on the alternative allocative mechanism. But such is not the case.

For, in looking at the political system, we find that it too is subject to various types of inefficiencies and imperfections, some of which are very much like the imperfections in the private economy.

First, the political system probably uses information less efficiently than does the price system. In the market system changes in prices are relatively clear and unambiguous signals of changing consumer tastes or changing resource scarcities. But the signals in the political system are more ambiguous. The citizen's vote for a political representative may be interpreted in different ways by different people. Certainly, there is little guarantee that the political system will be finely tuned to the changing needs and desires of individuals.

Secondly, there may be a mal-distribution of power in the political system just as there is an undesirable distribution of income in the

private sector. For one thing, the votes of some have often counted for more than the votes of others because legislative districts were not properly apportioned. Supreme court decisions and legislative reapportionment eliminated the worst abuses, though shifting populations would seem to demand continuous reapportionment if all votes are always to count equally.

Perhaps more seriously, special interest groups--which may be thought of as somewhat analogous to monopolistic abuses in the private economy--influence allocative decisions in the public sector just as in the private market economy. We need not cite in detail the abuses which stem from the legislative process. Suffice it to say that every special interest group has its own sacred cow. And too often, government action has merely served to mandate inefficiencies in the private economy. Moreover, since the government itself occupies a monopolistic position in our society, its own inefficiencies and actions may be less subject to competitive forces than are monopolistic abuses in the private sector.

Third, government actions themselves create external economies and external diseconomies, as any city planner is well aware. Locating a highway or airport at one site or another creates benefits for some citizens and creates havoc for others. Public parks may preclude private developers' plans. Decisions to renovate a downtown area may reduce sales elsewhere. Planners who have had to deal with these problems on a day-to-day basis could no doubt provide a lengthy list of additional examples.

Finally, the government itself may be ill-equipped to evaluate the tradeoff between present and future generations. Just as in the

private sector, governments may have difficulty in anticipating the future needs of society and the types of investments which can provide for those needs.

Of course, the private sector has also made its share of what we now consider bad investments, bad in perhaps both a private and a social sense. But since no one knows the future, the investment decisions made 20 years ago were not necessarily bad investments, given the information available and the existing values of society. Certainly, no corporation of a quarter-century ago was building its plants to intentionally pollute our lakes and streams. Instead, those investments were made in order to satisfy the perceived needs of the society, and it is not at all clear that decisions made by a government agency would have been any different or any better.

However, I would not argue that ours should be a laissez-faire economy, or even that government's current role should necessarily be reduced. Governments have played an important role in the past and will continue to do so. We know that there are goods and services which the public sector must provide, simply because they would not be provided by the private sector adequately or would not be provided at all. Moreover, we know that governments can play an important role in coordinating the direction of economic growth. Certainly this is true of metropolitan governments.

I repeat: our task is not that of choosing either a private economy or a planned economy, but is instead that of finding the proper balance between private and governmental decision making.

We cannot of course determine that balance in a fifteen minute presentation. Nor are we likely to adequately define it in the five sessions of this symposium. But still, I argue that finding such a balance should be our over-riding consideration, and while still on this rather conceptual level, I want to leave you with several thoughts:

First, the future is uncertain. Constructing elaborate growth plans does not mean that the plans can be implemented or that the plans will be accepted by the citizenry. Moreover, the technologies available a quarter- or half-century from now may permit reorganizations in our society which are now inconceivable. Given so much uncertainty, any planning that is undertaken should have as one of its key precepts that of flexibility.

Second, governments can misallocate resources just as easily as can private groups. There is not convincing evidence to suggest that fully-managed growth would have avoided many of the problems we now face. Indeed, in looking at a cross-section of the world's industrialized economies, they are all beset by the same economic and technological problems regardless of the degree of planning in their internal economies.

Third, I take it as axiomatic that there are inherent advantages in a decentralized decision-making system. To plan the future in meticulous detail--it seems to me--is impossible. The world is too complex and is changing too rapidly to permit precise management of economic growth. Thus, if for no other reason than by default, our society will likely continue to rely heavily on private decentralized decision making.

A fundamental reliance on market forces already seems widely accepted. Indeed, in framing our analysis, what we commonly seek to do

is to define the proper role of government in a market economy, not the proper role for markets in a planned economy.

Finally, given this orientation, I would argue that to justify government planning of economic growth, the burden of proof falls on the planner to establish what the gains from intervention might be. Legitimate intervention results only when the benefits of intervention are likely to outweigh the costs.

Briefly, in closing, let's apply these fairly lofty generalizations to the concrete problems of metropolitan areas. Even though my concluding comments are directed at an application of the principles I've argued, I have no definitive answers to offer to planners' problems and no specific recommendations to make about metropolitan planning. I deliberately-- and I think appropriately--interpret my role in this opening session as one of laying out a broad framework and perhaps evoking from the ensuing speakers and from you, the audience, reflections on the fundamentals of a metropolitan planning approach.

In the metropolitan-local area setting, I can think of three-- maybe more--categories of decisions in which private--as opposed to public--decisions have dominated much of our postwar development. These are housing decisions, transportation decisions, and business location decisions. In reality these decisions are obviously not independent of one another.

Let's look separately at decisions to produce a new housing unit--an investment decision, whether made by a tract builder-developer for sale or by an individual for his/her own use. Consider the "where" aspect of these decisions. In the main, thousands upon thousands of

private, market-type decisions have created the metropolitan cityscape we see today--the suburbs and the exurbs. Urban sprawl is viewed by planners as it were a blight. The Metropolitan Development Guide proposes to constrain future private decisions by predesignating part of the potential "next tier" of development land as growth areas and part of it as no-growth areas. And according to some calculations made by the Metropolitan Council, that kind of planned restriction on private decisions could save \$2 billion in outlays on municipal services capital facilities between now and 1990. Although it is not a point I will pursue here for lack of time, I will note that according to my earlier proscriptioin the projected \$2 billion in capital savings would need to be compared to costs of constraining private options before we bring in the final verdict.

What is it about the private decisions in a metro context that might lead to bad results within the traditional neoclassical competitive model analysis. Certainly the projected \$2 billion dollar "waste" of public capital that would occur through continuing urban sprawl in our metropolitan area suggests--though it does not unequivocally establish--the degree of market breakdown which might result from private decisions.

To pursue our example the market breaks down in fact because diseconomies external to the production or purchase of a new residence are very substantial. The initial cost/price of a residential unit has not ever included all of the costs to the community of building that unit. For illustration the following kinds of costs are actuarially inevitable increments to social costs, but typically are not part of the market calculus at the time a private decision is made (view these, of

course, as present-value computations of resource outlays that will be required over an extended period as a consequence of the decision to construct a particular unit.)

- . Incremental expenditures on additional school facilities to service the unit in the future.
- . Incremental cost of additional municipal services.
- . Incremental costs of providing new public roads and highways.
- . Increased costs imposed on prior users of roads and highways due to increased congestion.
- . Social costs of increased loss of life and property due to more highway traffic.
- . Loss of open spaces; aesthetic costs.

While I know of no creditable estimates of the magnitudes of these social costs that escape the market pricing mechanism, I would guess they are very substantial.

Now suppose we are able to determine in some reasonable way the incremental costs of these external diseconomies and that, further, we include these costs in the market price of a new home. One result of such an action--I would conjecture--is that metropolitan cityscape would have been vastly different from what it is now. The costs of turning suburban farmland into residential units would be very much higher than in fact it has been and very much less of it would be done while the costs--at least relatively speaking--of building or adding residential units in established areas (including inner city areas) would be very much less--and much more of it would be done.

I'm willing to conjecture that the end results in a general way would have been similar to those sought by the Metropolitan Council's Guides to growth.

This of course is hypothetical. I cannot argue that a practical means can necessarily be devised to bring into the market calculus those currently unpriced elements listed on the slide because I don't know. But if we scrutinize the Metropolitan Development Guide plan alongside the "market solution" I think we can better weigh the loss of options to individual choice that planning by political authority inevitably entails. The use of a system of "development rights" discussed in some of the Council's publications goes part way toward restoring some options lost under a growth/no growth arrangement but it still does not approach the number of individual options available under an open market regime.

We could continue on in the same vein to look at decisions on transportation services, and I think we would agree that some enormous external diseconomies are attendant on the private decision by individuals to buy (and operate) automobiles. And I think we would similarly be led to observe that if we could produce a full social-cost pricing of private automobile travel, we could at once achieve some of the fundamental land-use objectives sought by Metropolitan Development Guide planning and at the same time preserve a maximum of options open to the liberties of individual choice.

Urban renewal is another decision area that I think is also amenable to this kind of an analysis.

In sum, then, this analytical exercise may contribute to our review and evaluation of metropolitan growth policies in two ways: first, it may stimulate us to explore some possibilities for market

correctives that may--at least in part--be translatable into practical elements of a metropolitan program; and second, it may provide a useful discipline to the evaluation process we apply to metropolitan and local area planning as new programs unfold.

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Slide 2

We ought to continue relying primarily on a private economic system, supplementing it through government action in those cases where the potential gains from government intervention can be firmly established.

Slide 3

My underlying premises:

- . We should take maximum advantage of our private, decentralized decision-making system.
- . The burden of proof ought to rest with planners to show how a managed system would do better than the private system.

Slide 4

We have two allocative systems:

- . The price system.
- . The political system.

Slide 5

Imperfections in the private economy:

- . Does not provide public goods and services.
- . Suffers from external economies and diseconomies.
- . May allocate resources improperly between present and future generations.
- . Monopolistic abuses.

Slide 6

External economies (education, health, new technologies)

- . Too little of a good or service is produced.
- . Governments may act to encourage additional production.

External diseconomies (pollution, noise)

- . Too much of a good or service is produced.
- . Governments may act to restrict production.

Slide 7

Imperfections in the political system:

- . System may not be highly responsive to individual needs.
- . Political power may be inequitably distributed.
- . Government actions create external economies and diseconomies.
- . Government actions are based on imperfect knowledge of the future.

Slide 8

Final considerations:

- . The future is uncertain and any planning must be highly flexible.
- . Imperfections are common in both the market and political systems.
- . A decentralized decision-making system has inherent advantages.
- . Intervention by government is desirable only if the benefits of intervention outweigh the costs.

Social Costs Not Commonly Included
in the Price of a New Residence

- . Incremental expenditures on additional school facilities service the unit in the future.
- . Incremental cost of additional municipal services.
- . Incremental costs of providing new public roads and highways.
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